
COMPARISON OF BASELINES

INTRODUCTION

As the fiscal year 2003 budget process begins, the Office of Management and Budget [OMB] and Congressional Budget Office [CBO] have projected new baselines. A baseline is constructed to serve as a benchmark against which the budgetary effects of proposed changes in Federal revenue and spending are measured. It is an estimate of future revenue and spending levels – and therefore surpluses or deficits, and debt held by the public – under current laws and policy. Hence, a baseline is updated periodically to reflect changes in the economic outlook and enacted legislation.

Both OMB and CBO construct baselines using the statutory guidance of the Budget Enforcement Act [BEA]. This year, OMB also has constructed an *adjusted* baseline reflecting the one-time nature of spending in response to last September's terrorist attacks. To facilitate comparison with CBO's baseline, this analysis looks only at OMB's BEA (or current services) baseline.

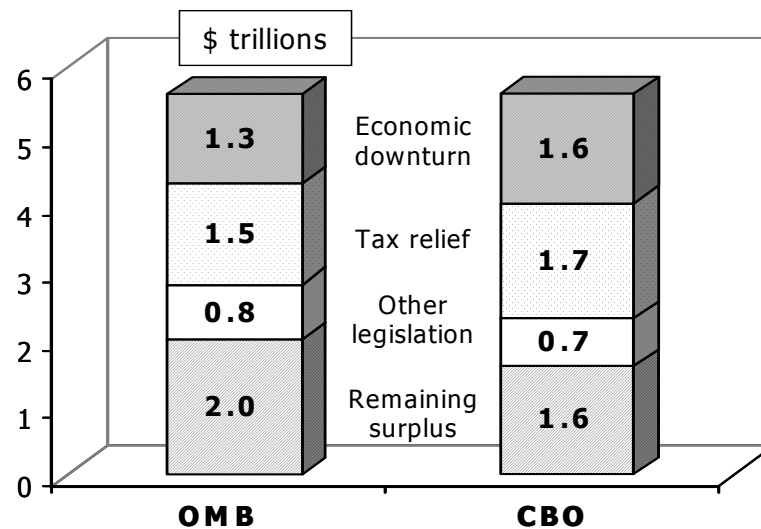
Generally, OMB and CBO baseline projections differ somewhat due to their different assumptions about economic and technical factors, such as gross domestic product [GDP] growth, inflation, interest rates, the rate at which a Government agency spends the money it is appropriated (the spendout rate), and composition of GDP (which affects the tax base).

CHANGES FROM 2001 TO 2002

At the start of last year's budget process, both OMB and CBO projected cumulative surpluses of \$5.6 trillion for the fiscal years 2002-2011. In January 2002, CBO lowered its estimate of the projected surplus by \$4 trillion, to \$1.6 trillion for the same period. OMB lowered its own estimate by \$3.6 trillion, to \$2.0 trillion. The sources of revision are broken down as shown in the chart on the next page.

When the remaining surplus is excluded, both OMB and CBO baseline revisions indicate that previously enacted legislation (including both spending increases and tax reductions) accounts for roughly 60 percent of the reduction in the 10-year surplus, while the economic downturn accounts for 40 percent. *In other words, the tax cuts enacted last year were not responsible for most of the decline in the surplus.*

In the near term, CBO estimates the economic downturn accounts for a greater amount of the surplus reduction than does OMB: 72 percent for fiscal year 2002 and 58 percent for fiscal year 2003, according to CBO; 68 percent and 49 percent, respectively, according to OMB.



DIFFERENCES BETWEEN THE CURRENT OMB AND CBO BASELINE PROJECTIONS

For fiscal year 2003, the differences between OMB and CBO baseline projections are shown in Table 1 below (by fiscal year, in billions of dollars of revenues and outlays):

Table 1: Baseline Comparisons

(by fiscal years, in billions of dollars)

	OMB			CBO			Difference		
	2003	2003-07	2003-12	2003	2003-07	2003-12	2003	2003-07	2003-12
Revenues	2,121	11,764	27,072	2,070	11,633	27,030	51	131	42
Discretionary	759	3,991	8,467	764	4,021	8,575	-4	-30	-108
Mandatory	1,145	6,249	14,464	1,147	6,268	14,615	-2	-19	-151
Net Interest	175	855	1,455	174	908	1,577	1	-53	-122
Surplus/Deficit	41	669	2,686	-14	437	2,263	55	232	423

REVENUES

As indicated clearly in the table, the primary difference between the two baselines in the near term arises from revenue projections. OMB's estimate of revenues is \$51 billion higher than CBO's in fiscal year 2003, and \$131 billion higher for the fiscal years 2003-2007. Two-thirds of

the difference in fiscal year 2003 comes from corporation income tax receipts, and about one-fifth comes from individual income tax receipts. The sources of that difference are more or less equally divided between economic and technical factors. For the fiscal years 2003-2012, the difference in revenue estimates declines to \$42 billion. The source of that \$42 billion difference is predominantly technical. CBO projects higher revenues from both individual and corporation income tax receipts during the second half of projection period.

NET INTEREST

Net interest estimates account for the second largest difference in both the 5-year and the 10-year periods. The sources of difference are economic as well as technical. In terms of economic factors, OMB assumes significantly lower short- and long-term interest rates, resulting in a lower interest paid per dollar on the Federal Government debt. In terms of technical factors, OMB baseline projects a better budget bottom line in each year, resulting in less government debt on which interest must be paid.

OUTLAYS

The differences in an estimate of outlays are very small in the near term. In aggregate (excluding net interest), outlays differ by \$6 billion for fiscal year 2003 and \$49 billion for fiscal years 2003-2007, which are less than 0.5 percent of the Federal budget in both cases. For the fiscal years 2003-2012, the difference totals to \$259 billion. The difference in discretionary outlays is fairly small in the early years, but it increases over time and totals to \$108 billion in 10 years. This divergence is almost entirely explained by the differences in assumptions of inflation. OMB's projection assumes lower inflation, leading to lower spending.

The difference in the projections of mandatory outlays is complex. The total difference (\$2 billion in fiscal year 2003, \$19 billion in fiscal years 2003-2007, and \$151 billion in fiscal years 2003-2012) masks the significant technical difference in Medicare spending. OMB's projection of Medicare spending is \$7 billion lower than CBO's for technical reasons in fiscal year 2003, \$81 billion for fiscal years 2003-2007, and \$301 billion for fiscal years 2003-2012. This \$301 billion is offset by higher projection of other mandatory spending. OMB's projection of Medicaid spending is \$7 billion higher for technical reasons in fiscal year 2003, \$38 billion for fiscal years 2003-2007, and \$72 billion for fiscal years 2003-2012. Likewise, OMB's projection of spending by other programs (such as earned income tax credit, veterans' compensation and pensions, and Federal civilian retirement) is higher than CBO's by \$2 billion in fiscal year 2003, \$50 billion for fiscal years 2003-2007, and \$173 billion for fiscal years 2003-2012.

On the economic side, OMB's projection of mandatory outlays is lower in all major programs – by \$3 billion in fiscal year 2003, \$25 billion for fiscal years 2003-2007, and \$95 billion for fiscal years 2003-2012. OMB's assumptions of lower inflation and lower unemployment rate explain most of this difference.

Overall, OMB's baseline surplus projection is higher than CBO – by \$55 billion in fiscal year 2003, \$232 billion for fiscal years 2003-2007, and \$423 billion for fiscal years 2003-2012. Put in different perspectives, each figure consists of 0.5 percent, 0.4 percent, and 0.3 percent of projected nominal GDP for respective fiscal years, or consists of 2.7 percent, 2.1 percent, and 1.7 percent of projected total baseline outlays for respective fiscal years (no difference whether based on OMB or CBO baselines).